

Commonwealth of Massachusetts
Department of Telecommunications and Energy
Fitchburg Gas and Electric Light Company d/b/a Unitil
Docket No: D.T.E. 04-48 (Phase II)
Department's First Set of Document and Information Requests

Request No. DTE 1-1

Refer to Schedules LMB-1, 2, 4 and 5 of the 2004 Tariff Compliance Filing. Please explain, in detail, the basis and rationale for all allocations to the electric transmission function.

Response:

In its October 27, 2004 Order in D.T.E. 04-48, the Department directed the Company to allocate its pension and PBOP expenses between the transmission and distribution function. The Department noted that the Pension/PBOP Adjustment Factor ("PAF") is overstated because increases in pension and PBOP costs allocable to the transmission function that have occurred since the Company's last rate case would be included in the PAF. The Department also noted that their directive applies to the Carrying Charge component of the PAF. The Company's understanding of the Department's requirement is that both pension and PBOP expenses, and prepaid expenses included in the Carrying Charge component of the PAF, should be allocated between transmission and distribution.

Accordingly, the Company has allocated pension and PBOP expenses between the transmission and distribution functions such that increases in these costs are also allocated to the transmission function. The Company has also allocated prepaid pension and PBOP expenses to the transmission function.

With respect to expenses in Section I of Schedule LMB-1, the amount to be recovered in the PAF was revised to reflect "distribution" only. The supporting calculations for Section I are provided in Schedules LMB-2 through LMB-5.

As shown in Schedule LMB-2, the 2004 expenses were allocated to the transmission function on line 18. The "distribution" amount is then carried forward to Schedule LMB-1, line 2. The amount of pension/PBOP expense in distribution rates (derived on Schedule LMB-4) is then subtracted such that 2004 expense on Schedule 1, line 4 reflects distribution only. The same calculation was performed for the unamortized reconciliation deferral at 12/31/ 03 on Schedule LMB-1, line 1. (Schedule LMB-5 shows the calculation of 2003 distribution expense and Schedule LMB-3 shows removal of the amount already in distribution rates. This amount is then carried forward to Schedule LMB-1, line 1.) Schedule LMB-4 shows the transmission amount being subtracted from total expense to determine the amount in distribution rates.

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The transmission allocation factor is from the test year compliance cost of service study in D.T.E. 02-24/25. In the test year cost of service study, pension and PBOP expenses were allocated to the transmission function based on a labor allocator. Consistent with the test year cost of service, the labor allocator is used to allocate pension and PBOP expenses, including prepaid expenses, between the transmission and distribution function.

Person Responsible: Karen M. Asbury

Date: December 6, 2004